

# AP ECON: THE BASICS!



# What is economics?

- Study of choices
- How do people deal with scarcity?
- What is given up in the choice?
- What goal is achieved by the choice?
- Who makes the choice?
- Can the choice be more efficient?



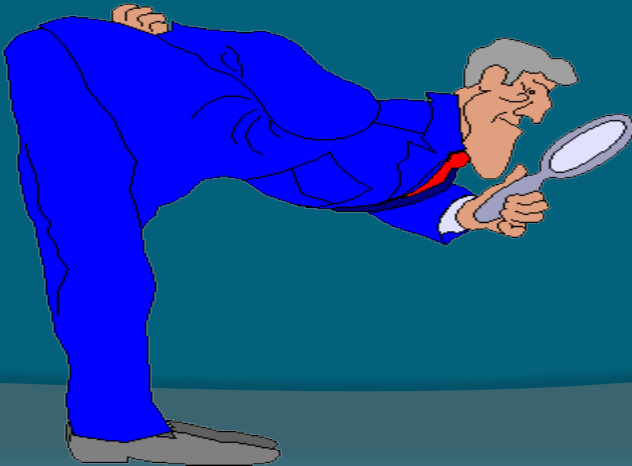
# Macro vs. Micro

- Scope of the choices
- (see page 8 in book)



- MICRO

- Individuals, firms, small markets



- MACRO

- National/international in scope
- Governments and countries

# Micro or Macro?

- Income
- Job
- Settlement
- How
- Inter
- Cost
- Stock

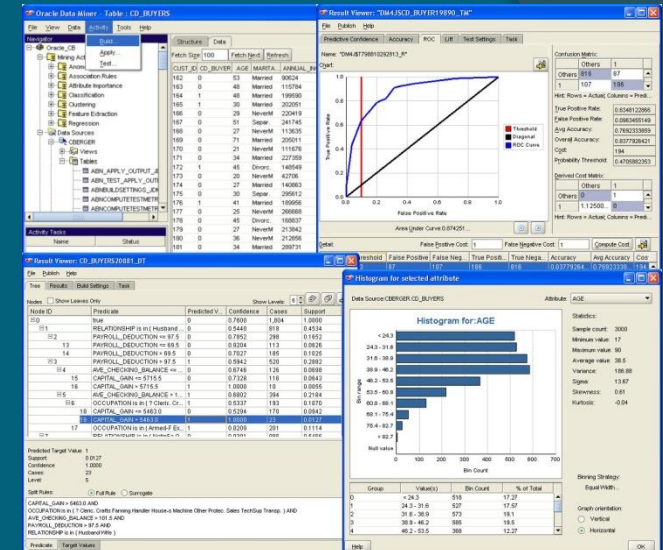




# Positive vs. Normative

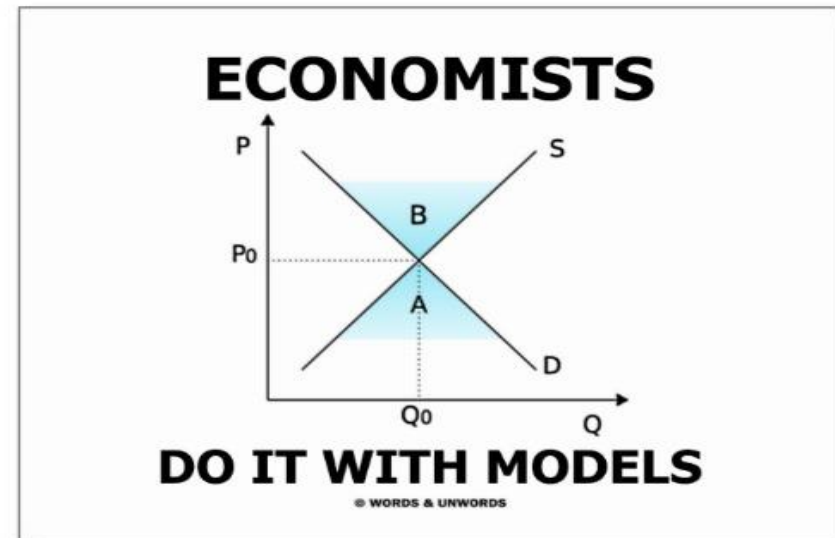
- Positive economics
  - Study of what IS
  - Uses data to describe current situations or theories

- Normative Economics
  - Study of what COULD be
  - Policies...what SHOULD be done?



# Economic Models

- Many theories based on MODELS, NOT real life
- CETERIS PARIBUS!!!!!!!
  - All else held constant
  - Limits the “what ifs....”



# Rational Decision Making

- ⦿ Most models assume people are rational
  - Weigh correct costs/benefits before decisions
    - Requires information
    - Requires MARGINAL THINKING

# Scarcity, Choice, and Opportunity Cost

- *Human wants are unlimited, but resources are not - SCARCITY.*

Three basic questions must be answered in order to understand an economic system:

What gets produced?

How is it produced?

Who gets what is produced?



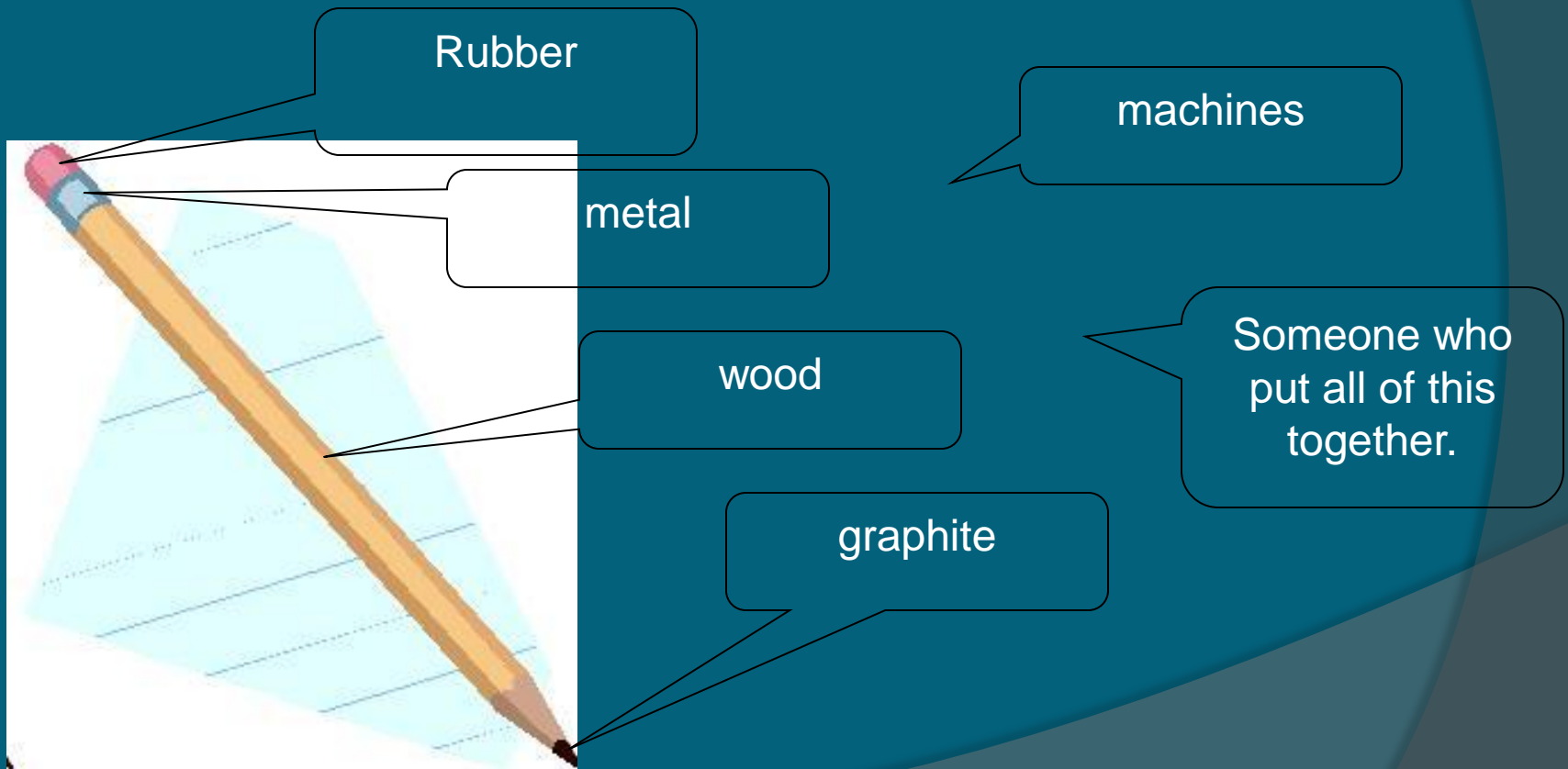
# Factors of Production (Productive Resources)

# Factors of Production

- What went into making this?



# What went into this?





# 4 Categories of Productive Resources (Factors of Production)

## LAND

- Natural resources
- wood, rubber, graphite, land, animals

## CAPITAL

- A produced good used in the production of another good
- Machines, computers, buildings, etc

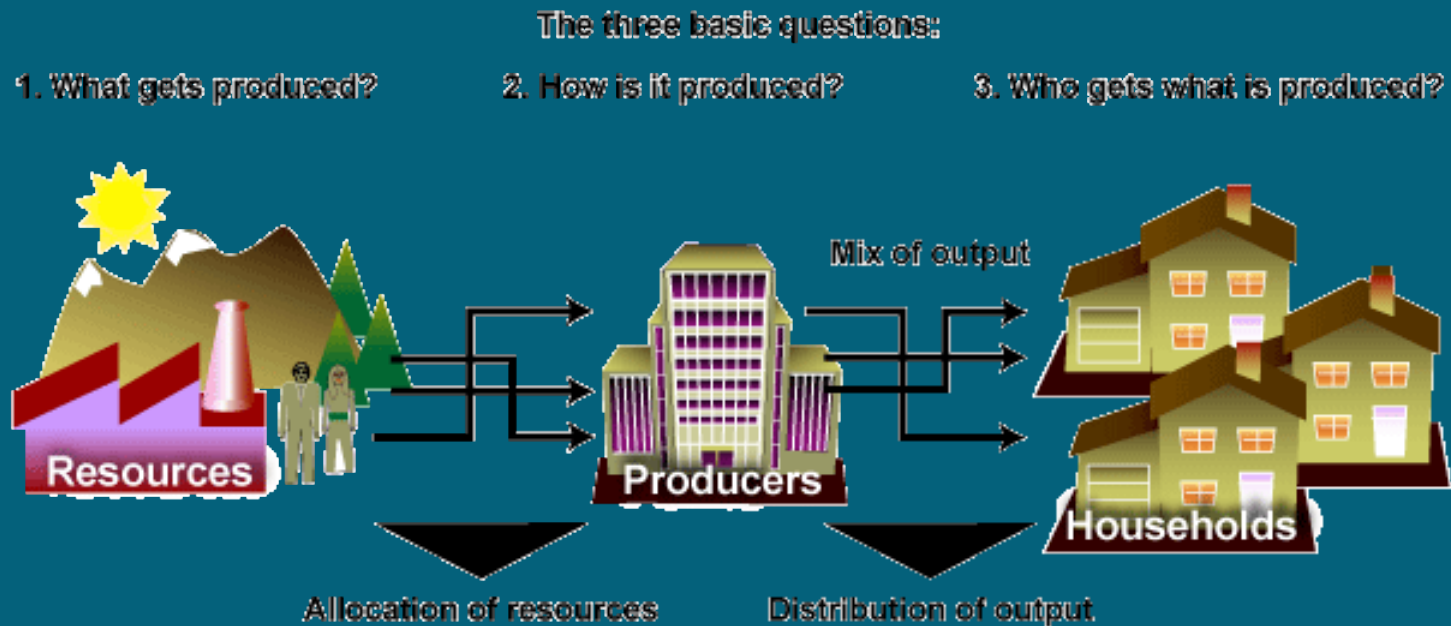
## LABOR

- Human resources, people
- MENTAL and PHYSICAL
- Sometimes referred to as Human Capital

## ENTREPRENUERSHIP

- The person or group responsible for putting the other 3 together to produce something

# Scarcity, Choice, and Opportunity Cost



- Every society has some system or mechanism that transforms that society's scarce resources into useful goods and services.



# Economic Systems

## ◉ Market/Capitalism

- 3 basic questions answered by market

## ◉ Command/Communism

- 3 basic questions answered by central authority



**PURE forms of each system are rare.**

**MOST economic systems are MIXED w/ elements of both**

# Scarcity

- ⦿ Basic problem of ALL economics
- ⦿ Unlimited wants/needs, limited resources
- ⦿ Is an item scarce? Ask two questions:
  - Is it limited in quantity?
  - Is it desirable for multiple uses?
  - If yes to both, it's scarce.
- ⦿ Is everything scarce?



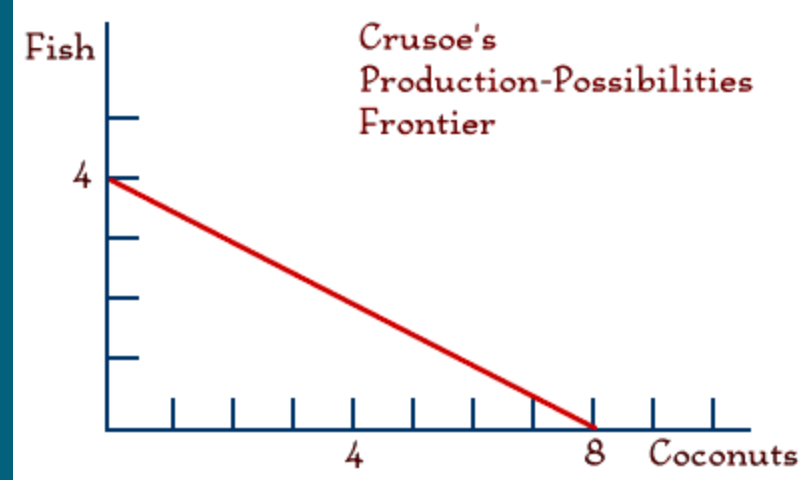
# Opportunity Cost

- Results from scarcity
- Opp. Cost is the thing GIVEN UP in choice
  - It is the **NEXT BEST** alternative
- Mall food court example
- NEXT BEST!!!!!!!**



# Production Possibilities Curve (PPC)

# PPC



- a graph that shows the trade-off between **two** production options
  - A visual representation of OPPORTUNITY COSTS
- 2 Assumptions:
  - The company/country is ONLY producing the two goods on the graph
  - The company/country desires to use ALL of their resources

# PPC – an example

- Suppose a country makes Pencils and Pens.
- If they devoted ALL of their resources to pencils, they could make 500 a day
- .....to pens, they could make 300 a day



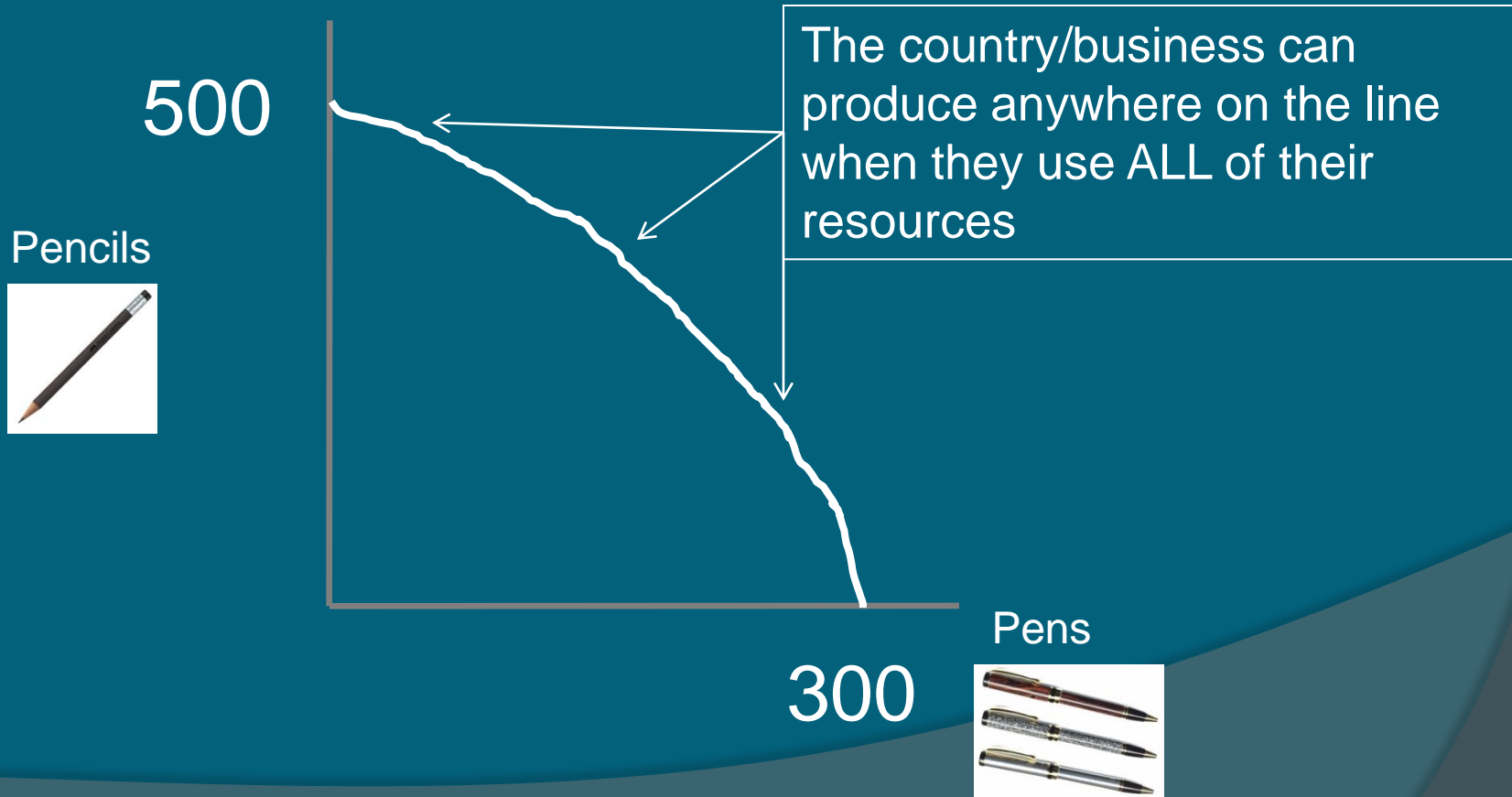
500



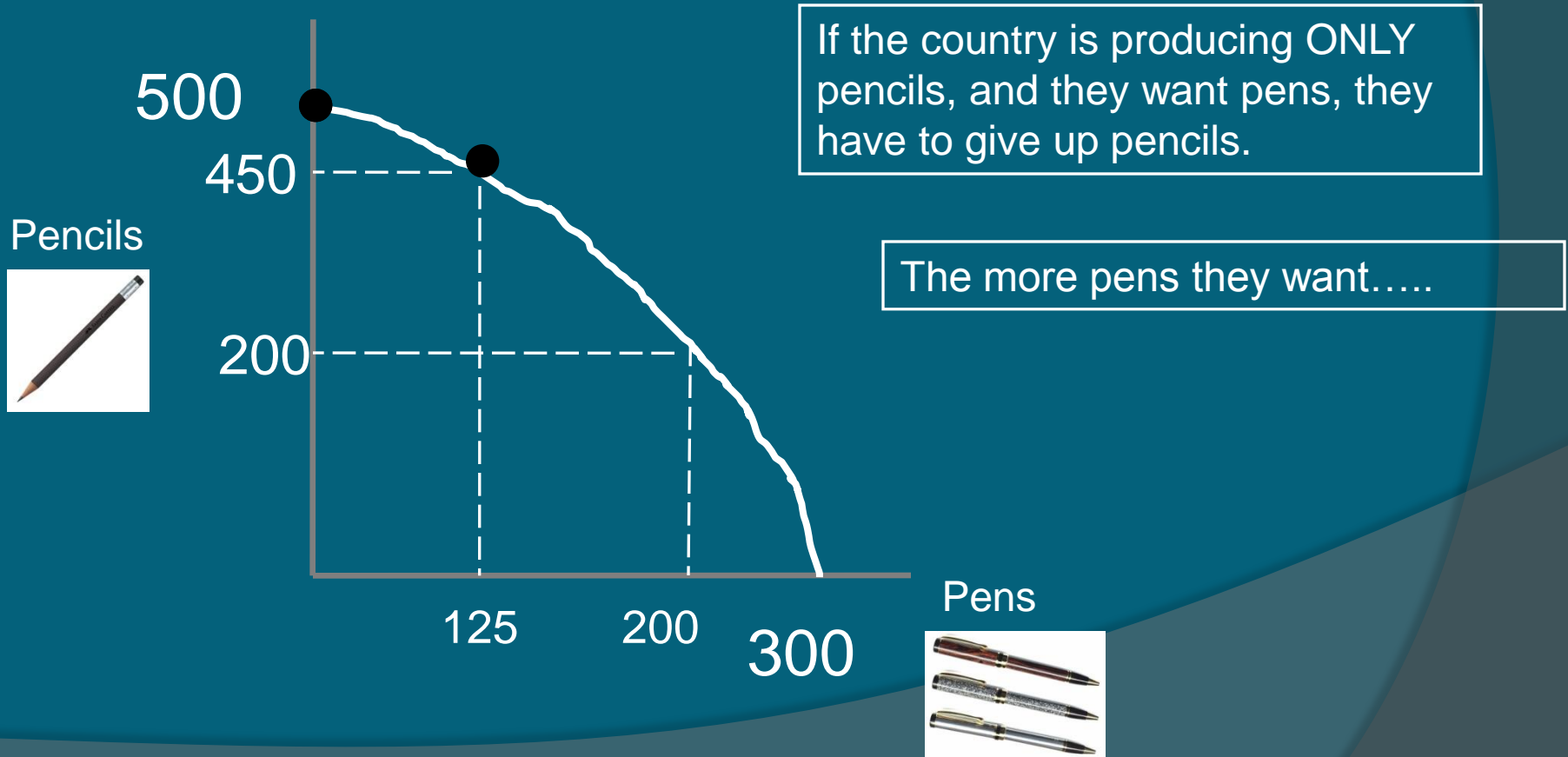
300



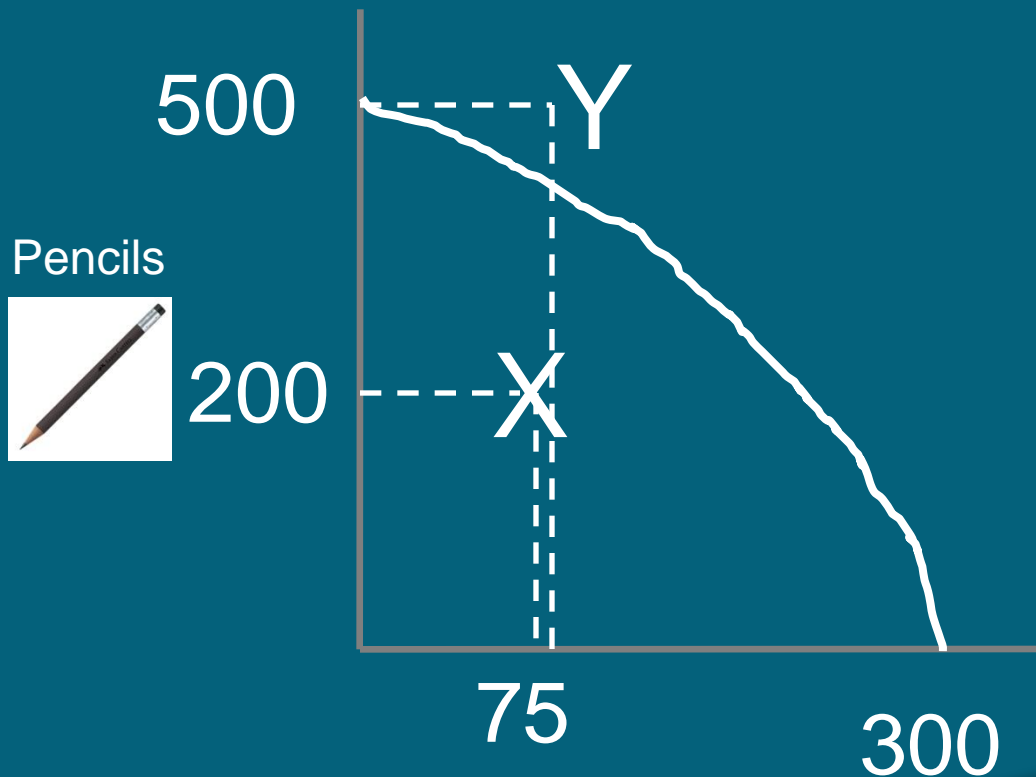
# PPC – an example



# PPC – an example



# PPC – an example

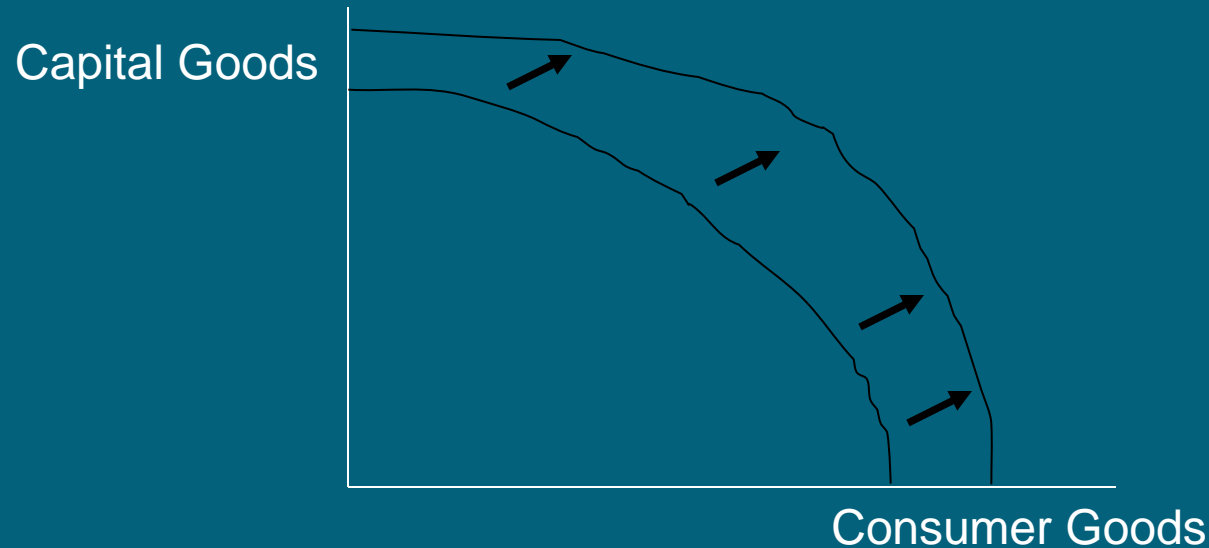


At point X, the country or business is producing below its possibilities and is **INEFFICIENT**

At point Y, the country or business is producing beyond its possibilities and is **NON-SUSTAINABLE**.



# Economic Growth



- Not 1 magical thing, combination of several factors
- Increasing overall productivity is key